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2007 JUN -7 P 1:37

AZ CORP COMMISSION
DOCKET CONTROL

June 6, 2007

By Overnight Delivery

Docket Control

Arizona Corporation Commission

1200 W. Washington Street

Phoenix, AZ 85007-2927

Re: Docket No. T-04310A-05-0127 - Application of ATX Licensing, Inc. for a Certificate of Convenience and Necessity to Provide Resold Long Distance Telecommunications Services in the State of Arizona

Dear Sir or Madam:

On behalf of ATX Licensing, Inc., enclosed for filing are an original and thirteen (13) copies of financial statements from the Form S-4 filed by Broadview Networks Holdings, Inc. ("Broadview") with the Securities and Exchange Commission. A complete copy of the Form S-4 is available at:

<http://www.sec.gov/Archives/edgar/data/1104358/000095012307007421/y34731sv4.htm>.

Please date stamp the extra copy of this letter and return it in the self-addressed, postage paid envelope provided. Should you have any questions regarding this filing, please do not hesitate to contact me.

Respectfully submitted,

Brett P. Ferenchak

Counsel for ATX Licensing, Inc.

Enclosure

Boston
Hartford
Hong Kong
London
Los Angeles
New York
Orange County
San Francisco
Santa Monica
Silicon Valley
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Washington

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Arizona Corporation Commission
DOCKETED

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form S-4
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

Broadview Networks Holdings, Inc.

Subsidiary Guarantors Listed on Schedule A Hereto

(Exact name of registrant as specified in its charter)

Broadview Networks Holdings, Inc.

Delaware

*(State or other jurisdiction of
incorporation or organization)*

4813

*(Primary Standard Industrial
Classification Number)*
**800 Westchester Avenue
Rye Brook, NY 10573
(914) 922-7000**

11-3310798

(I.R.S. Employer Identification No.)

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

**Michael K. Robinson
Chief Executive Officer
Broadview Networks Holdings, Inc.
800 Westchester Avenue
Rye Brook, NY 10573
(914) 922-7000**

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copy to:

**Cristopher Greer, Esq.
Willkie Farr & Gallagher LLP
787 Seventh Avenue
New York, New York 10019
(212) 728-8000**

Approximate date of commencement of proposed sale to the public: As soon as practicable following the effective date of this Registration Statement.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. ☐

If this Form is filed to register additional securities for an offering pursuant to Rule 462(6) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

CALCULATION OF REGISTRATION FEE

Title of Each Class Of Securities to Be Registered	Amount to be Registered	Proposed Maximum Offering Price per Unit(1)	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee(1)
11 $\frac{3}{4}$ % Senior Secured Notes due 2012	\$300,000,000	100%	\$300,000,000	\$9,210
Guarantees(2).	N/A	N/A	N/A	N/A

(1) Estimated solely for the purpose of calculating the registration fee under Rule 457(f) of the Securities Act of 1933, as amended.

(2) Pursuant to Rule 457(n) of the Securities Act of 1933, as amended, no separate fee is payable for the guarantees.

The registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until this registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Broadview Networks Holdings, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Broadview Networks Holdings, Inc. and Subsidiaries (the "Company") as of December 31, 2006 and 2005 (Successor Company) and the related consolidated statements of operations, stockholders' equity (deficiency) and cash flows for the years ended December 31, 2006 and 2005, for the period from March 1, 2004 to December 31, 2004 (Successor Company) and for the period from January 1, 2004 to February 29, 2004 (Predecessor Company). Our audits also included the financial statement schedule listed in the Index. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Broadview Networks Holdings, Inc. and Subsidiaries at December 31, 2006 and 2005 (Successor Company) and the consolidated results of its operations and its cash flows for the years ended December 31, 2006 and 2005, for the period from March 1, 2004 to December 31, 2004 (Successor Company) and for the period from January 1, 2004 to February 29, 2004 (Predecessor Company), in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 2 to the consolidated financial statements, the Company changed its method of accounting for stock-based compensation effective January 1, 2006.

/s/ Ernst & Young LLP

New York, New York
March 29, 2007

BROADVIEW NETWORKS HOLDINGS, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
(in thousands, except share amounts)

	Successor	
	December 31,	
	2006	2005
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 43,952	\$ 16,753
Restricted cash	460	—
Accounts receivable, less allowance for doubtful accounts of \$7,971 in 2006 and \$6,695 in 2005	41,313	24,495
Other current assets	8,308	3,162
Total current assets	94,033	44,410
Property and equipment, net	61,395	39,547
Goodwill	69,632	27,964
Intangible assets, net of accumulated amortization of \$65,128 in 2006 and \$34,672 in 2005	79,848	80,986
Other assets	13,417	4,206
Total assets	<u>\$318,325</u>	<u>\$197,113</u>
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIENCY)		
Current liabilities:		
Accounts payable	\$ 12,684	\$ 26,069
Accrued expenses and other current liabilities	47,506	20,015
Taxes payable	8,604	8,238
Deferred revenues	8,019	5,748
Current portion of capital lease obligations	3,084	2,095
Current portion of long-term debt	—	10,000
Total current liabilities	79,897	72,165
Long-term debt	210,000	74,000
Senior unsecured subordinated debt	—	59,862
Deferred rent payable	2,747	2,411
Capital lease obligations, net of current portion	4,685	1,247
Other	526	—
Total liabilities	<u>297,855</u>	<u>209,685</u>
Stockholders' equity (deficiency):		
Common stock — \$.01 par value; authorized 90,000,000, issued and outstanding 8,871,427 shares and 6,605,872 shares at December 31, 2006 and 2005, respectively	102	66
Series A Preferred stock — \$.01 par value; authorized 89,526 shares, designated, issued and outstanding 89,521 shares at December 31, 2006 and 2005	1	1
Series A-1 Preferred stock — \$.01 par value; authorized 105,000 shares at December 31, 2006, designated, issued and outstanding 100,702 shares at December 31, 2006	1	—
Series B Preferred stock — \$.01 par value; authorized 93,180 shares, designated, issued and outstanding 92,832 shares at December 31, 2006 and 2005	1	1
Series B-1 Preferred stock — \$.01 par value; authorized 46,000 shares at December 31, 2006, designated, issued and outstanding 42,231 shares at December 31, 2006	—	—
Additional paid-in capital	117,689	44,254
Accumulated deficit	(97,324)	(55,811)
Deferred compensation	—	(1,083)
Total stockholders' equity (deficiency)	<u>20,470</u>	<u>(12,572)</u>
Total liabilities and stockholders' equity (deficiency)	<u>\$318,325</u>	<u>\$197,113</u>

See notes to consolidated financial statements.

BROADVIEW NETWORKS HOLDINGS, INC. AND SUBSIDIARIES
Consolidated Statements of Operations
(in thousands)

	Successor			Predecessor
	Year Ended December 31, 2006	Year Ended December 31, 2005	Ten Months Ended December 31, 2004	Two Months Ended February 29, 2004
Revenues	\$272,653	\$240,396	\$ 72,826	\$13,631
Operating expenses:				
Cost of revenues (exclusive of depreciation and amortization)	130,841	115,214	36,105	7,081
Selling, general and administrative	105,232	93,465	30,215	5,363
Deferred compensation	754	673	308	—
Software development	1,819	2,301	—	—
Depreciation and amortization	49,781	45,756	8,554	284
Merger integration costs	<u>1,430</u>	<u>4,531</u>	<u>2,834</u>	<u>10</u>
Total operating expenses	<u>289,857</u>	<u>261,940</u>	<u>78,016</u>	<u>12,738</u>
(Loss) income from operations	(17,204)	(21,544)	(5,190)	893
Other income (expense)	21	—	(4,523)	(1,001)
Interest expense	(25,463)	(17,842)	(3,399)	(704)
Interest income	<u>1,395</u>	<u>458</u>	<u>31</u>	<u>29</u>
Loss before provision for income taxes	(41,251)	(38,928)	(13,081)	(783)
Provision for income taxes	<u>(262)</u>	<u>—</u>	<u>(3,802)</u>	<u>(2)</u>
Net loss	<u><u>\$ (41,513)</u></u>	<u><u>\$ (38,928)</u></u>	<u><u>\$ (16,883)</u></u>	<u><u>\$ (785)</u></u>

See notes to consolidated financial statements.

BROADVIEW NETWORKS HOLDINGS, INC. AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity (Deficiency)
(in thousands, except share amounts)

	Successor Company						Predecessor Company	
	Year Ended December 31,				Ten Months Ended		Two Months Ended	
	2006		2005		December 31, 2004		February 29, 2004	
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount
Common stock								
Balance at beginning of year	6,605,872	\$ 66	336	\$ —	—	\$ —	756,256	\$ 8
Common stock issued	—	—	—	—	—	—	—	—
Issuance of shares pursuant to the plan of merger	—	—	—	—	336	—	—	—
Net effect of merger recapitalization	—	—	6,605,536	66	—	—	—	—
Repurchase of lender shares	(1,307,770)	—	—	—	—	—	—	—
Issuance of shares pursuant to conversion of senior unsecured subordinated notes	3,573,325	36	—	—	—	—	—	—
Balance at end of year	8,871,427	102	6,605,872	66	336	—	756,256	8
Series A Preferred stock								
Balance at beginning of year	89,521	1	36,444	—	—	—	—	—
Issuance of shares pursuant to the plan of merger	—	—	—	—	36,000	—	—	—
Issuance of new shares in cancellation of note payable	—	—	—	—	444	—	—	—
Net effect of merger recapitalization	—	—	53,077	1	—	—	—	—
Balance at end of year	89,521	1	89,521	1	36,444	—	—	—
Series A-1 Preferred Stock								
Balance at beginning of year	—	—	—	—	—	—	—	—
Issuance of shares pursuant to conversion of senior unsecured subordinated notes	100,702	1	—	—	—	—	—	—
Balance at end of year	100,702	1	—	—	—	—	—	—
Series B Preferred Stock								
Balance at beginning of year	92,832	1	—	—	—	—	—	—
Net effect of merger recapitalization	—	—	92,832	1	—	—	—	—
Balance at end of year	92,832	1	92,832	1	—	—	—	—
Series B-1 Preferred Stock								
Balance at beginning of year	—	—	—	—	—	—	—	—
Issuance of shares pursuant to conversion of senior unsecured subordinated notes	42,231	—	—	—	—	—	—	—
Balance at end of year	42,231	—	—	—	—	—	—	—
Additional paid-in capital								
Balance at beginning of year	—	\$ 44,254	—	\$ 37,391	—	\$ —	—	\$ 207
Issuance of shares pursuant to the plan of merger	—	—	—	—	—	35,838	—	—
Issuance of new shares in cancellation of note payable	—	—	—	—	—	444	—	—
Net effect of merger recapitalization	—	—	—	5,908	—	—	—	—
Deferred compensation	—	754	—	955	—	1,109	—	—
Adoption of SFAS No. 123R	—	(1,083)	—	—	—	—	—	—
Issuance of shares pursuant to conversion of senior unsecured subordinated notes	—	73,764	—	—	—	—	—	—
Balance at end of year	—	117,689	—	44,254	—	37,391	—	207
Note receivable stockholders								
Balance at beginning of year	—	—	—	—	—	—	—	(1,351)
Payment of stock receivable	—	—	—	—	—	—	—	789
Balance at end of year	—	—	—	—	—	—	—	(562)
Accumulated deficit								
Balance at beginning of year	—	(55,811)	—	(16,883)	—	—	—	3,861
Net Loss	—	(41,513)	—	(38,928)	—	(16,883)	—	(785)
Balance at end of year	—	(97,324)	—	(55,811)	—	(16,883)	—	3,076
Deferred compensation								
Balance at beginning of year	—	(1,083)	—	(801)	—	—	—	—
Deferred compensation	—	—	—	(282)	—	(801)	—	—
Adoption of SFAS No. 123R	—	1,083	—	—	—	—	—	—
Balance at end of year	—	—	—	(1,083)	—	(801)	—	—
Total stockholders' equity (deficiency)	—	\$ 20,470	—	\$ (12,572)	—	\$ 19,707	—	\$ 2,729

See notes to consolidated financial statements.

BROADVIEW NETWORKS HOLDINGS, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(in thousands)

	Successor		Predecessor
	Year Ended December 31, 2006	Year Ended December 31, 2005	Ten Months Ended December 31, 2004
			Two Months Ended February 29, 2004
Cash flows from operating activities			
Net loss	\$ (41,513)	\$(38,928)	\$ (16,883)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation	19,302	17,679	1,959
Amortization and write-off of deferred financing costs	2,383	1,030	809
Amortization of intangible assets	30,479	28,077	6,595
Provision for doubtful accounts	4,115	3,823	1,332
Noncash subordinated debt interest	4,920	5,991	—
Amortization of deferred compensation	754	673	308
Increase in fair value of derivatives	—	(762)	—
Deferred income taxes	—	—	3,790
Other	(18)	(65)	—
Changes in operating assets and liabilities:			
Restricted cash	(460)	—	—
Accounts receivable	(1,492)	(3,243)	(765)
Prepaid expenses and other current assets	(1,328)	1,180	1,078
Deferred acquisition costs	—	—	(6,578)
Other assets	(208)	(1,307)	39
Accounts payable	(15,598)	(6,007)	120
Accrued and other current liabilities	11,349	(378)	6,280
Deferred revenue	260	(359)	193
Deferred rent	336	747	(12)
Other liabilities	15	—	—
Net cash provided by (used in) operating activities	13,296	8,151	(1,735)
Cash flows from investing activities			
Proceeds from disposal of property and equipment	—	223	—
Cash acquired in merger	—	7,991	—
Acquisition, net of cash and restricted cash acquired	(88,787)	—	—
Merger acquisition costs	(3,635)	(10,030)	—
Purchase of property and equipment	(23,146)	(18,915)	(4,763)
Purchase of predecessor shares, net of cash received from shareholders	—	—	(35,573)
Net cash used in investing activities	(115,568)	(20,731)	(40,336)
Cash flows from financing activities			
Proceeds from capital lease financing	\$ 7,794	\$ 372	\$ —
Proceeds from issuance of long-term debt	210,000	—	—
Repayments of long-term debt	(84,000)	(3,000)	—
Proceeds from issuance of subordinated debt	10,000	30,000	—
Repayment of subordinated debt	(972)	—	—
Subordinated debt conversion fees	(1,531)	—	—
Payment of deferred financing fees	(8,453)	—	—
Capital contribution	—	—	36,282
Repayments of note payable — stockholder	—	—	562
Payments on capital lease obligations	(3,367)	(2,080)	(190)
Other	—	115	—
Net cash provided by financing activities	129,471	25,407	36,654
Net increase (decrease) in cash and cash equivalents	27,199	12,827	(5,417)
Cash and cash equivalents at beginning of period	16,753	3,926	9,343
Cash and cash equivalents at end of period	\$ 43,952	\$ 16,753	\$ 3,926
Supplemental disclosure of cash flow information			
Cash paid during the year for interest	\$ 7,123	\$ 10,584	\$ 3,133

See notes to consolidated financial statements.

BROADVIEW NETWORKS HOLDINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2006

(in thousands, except share information)

1. Organization and Description of Business

Broadview Networks Holdings, Inc. (the "Company,"), formerly Bridgecom Holdings, Inc., is an integrated communications company whose primary interests consist of its wholly-owned subsidiaries, Broadview Networks, Inc. ("BNI"), Bridgecom Holdings, Inc. ("BH"), and Corecomm-ATX Inc., competitive local exchange carriers. The Company also provides phone systems and other customer service offerings through its subsidiary, Bridgecom Solutions Group, Inc. ("BSG"). The Company was founded in 1996 to take advantage of the deregulation of the U.S. telecommunications market following the Telecommunications Act of 1996. The Company has one reportable segment, which provides domestic wireline telecommunications services consisting of local and long distance voice services, Internet, and data services to commercial and residential customers in the northeast United States.

Change of Ownership

In November 2003, BH ("Predecessor Company") entered into a merger agreement with MCG Capital Corp. ("MCG"), Telecomm North Corp. (a wholly-owned subsidiary of MCG) and certain stockholders of BH. The transaction closed in March 2004. Under the terms of the agreement, Telecomm North Corp. acquired 100% of BH's shares, buying out all other stockholders. The surviving company continued to carry the name Bridgecom Holdings, Inc. ("Successor Company") until the January 2005 merger with BNI became effective at which time the Company began doing business under the name Broadview Networks Holdings, Inc.

In October 2004, the Company entered into a merger agreement with BNI and subsidiaries, the principal stockholders of BNI and MCG, 100% owners of BH, which closed and became effective in January 2005. As a result of the merger and certain related transactions, MCG became the owner of 60% of the voting power of the Company's capital stock and approximately 40% of the Company's capital stock on a fully diluted basis, excluding options reserved but not issued under the Company's employee stock incentive plan as of January 14, 2005. BH was considered to be the acquirer for accounting purposes.

In June 2006, the Company entered into a merger agreement with ATX Communications, Inc. ("ATX") and its shareholders and Leucadia National Corporation which closed and became effective in September 2006. The Company was considered to be the acquirer for accounting purposes.

2. Significant Accounting Policies

Basis of Presentation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany transactions have been eliminated in consolidation. As a result of the mergers effective September 29, 2006, January 14, 2005 and March 3, 2004, the consolidated financial statements of the Company reflect the acquisitions under the purchase method of accounting in accordance with the Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 141, *Business Combinations* ("SFAS 141"). For periods following the March 3, 2004 acquisition, the consolidated statements of the Company are presented as "Successor." For periods preceding the March 3, 2004 acquisition, the consolidated financial statements are presented as "Predecessor."

Revenue Recognition

The Company's revenue is derived primarily from subscriber usage and fixed monthly recurring fees. Such revenue is recognized in the month the actual services and other charges are provided and costs are incurred, with deferral of revenue and prepayment of those monthly charges that are billed in advance. Services rendered for which the customer has not been billed are recorded as unbilled revenues until the period such billings are provided. Cable and wiring revenues are recognized when the Company provides the services.

BROADVIEW NETWORKS HOLDINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

December 31, 2006

(in thousands, except share information)

2. Significant Accounting Policies (continued)

Unbilled revenue included in accounts receivable represents revenue for earned services, which was billed in the succeeding month and totaled \$5,306 and \$3,681 as of December 31, 2006 and 2005, respectively.

Revenue from carrier interconnection and access amounting to \$15,028 and \$14,843 in the years ended December 31, 2006 and 2005, \$4,706 for the ten months ended December 31, 2004 and \$990 for the two months ended February 29, 2004, respectively, is recognized in the month in which service is provided.

Costs of Revenue

Costs of revenue include direct costs of sales and network costs. Direct costs of sales include the costs incurred with telecommunication carriers to render services to customers. Network costs include the costs of fiber and access, points of presence, repairs and maintenance, rent and utilities of the telephone, internet data network, as well as salaries and related expenses of network personnel. Network costs are recognized during the month in which the service is utilized. The Company accrues for network costs incurred but not billed by the carrier.

Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. A significant portion of cash balances are maintained with several high credit quality financial institutions, which are members of the FDIC.

Restricted Cash

Restricted cash represents the balance of cash that ATX was required to set aside for the purpose of paying certain claims and administrative expenses.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are reported at their outstanding unpaid principal balances reduced by an allowance for doubtful accounts. The Company estimates doubtful accounts based on historical bad debts, factors related to the specific customers' ability to pay, percentages of aged receivables and current economic trends. Allowances for doubtful accounts are recorded as selling, general and administrative expenses. The Company writes off accounts deemed uncollectible after efforts to collect such accounts are not successful.

Property and Equipment

Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The estimated useful life is three years for computer equipment, five years for furniture and fixtures, and seven years for network equipment. Leasehold improvements are amortized on a straight-line basis over the shorter of their estimated useful lives or the related lease term. Capitalized software costs are amortized on a straight-line basis over the estimated useful life, typically two years. Construction in progress includes amounts incurred in the Company's expansion of its network. The amounts include switching and co-location equipment, switching and co-location facilities design and co-location fees. The Company has not capitalized interest to date since the construction period has been short in duration and the related imputed interest expense incurred during that period was insignificant. When construction of each switch or co-location facility is completed, the balance of the assets is transferred to network equipment and depreciated in accordance with the Company's policy. Maintenance and repairs are expensed as incurred.

BROADVIEW NETWORKS HOLDINGS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (continued)
December 31, 2006
(in thousands, except share information)

2. Significant Accounting Policies (continued)

Impairment of Long-lived Assets

The Company accounts for the impairment of long-lived assets in accordance with the provisions of SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* ("SFAS 144"). SFAS 144 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company compares the carrying amount of the asset to the estimated undiscounted future cash flows expected to result from the use of the asset. If the carrying amount of the asset exceeds estimated expected undiscounted future cash flows, the Company records an impairment charge for the difference between the carrying amount of the asset and its fair value.

Goodwill and Other Intangible Assets

The Company accounts for goodwill and other intangible assets in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets* ("SFAS 142"), whereby goodwill is not subject to amortization over its estimated useful life. Rather, goodwill is subject to at least an annual assessment for impairment by applying a fair-value-based test.

Additionally, an acquired intangible asset should be separately recognized if the benefit of the intangible asset is obtained through contractual or other legal rights, or if the intangible asset can be sold, transferred, licensed, rented or exchanged, regardless of the acquirer's intent to do so.

Third Party Conversion Costs

The Company currently capitalizes third party conversion costs incurred to provision customers to its network. These costs include external vendor charges, but exclude costs incurred internally. At January 1, 2006, the Company changed the third party conversion costs amortization period from two to four years. The Company believes that an amortization period of four years more properly reflects the expected life of its current customer base. The effect of changing this estimate in useful life was a reduction in depreciation expense of \$2,951 for the year ended December 31, 2006.

Debt Issuance Costs

The costs related to the issuance of long-term debt are deferred and amortized into interest expense over the life of each debt issuance.

Significant Vendor

The Company purchases approximately 79% of its telecommunication services from one vendor. Accounts payable and accrued expenses in the accompanying consolidated balance sheets include \$28,244 and \$29,053 as of December 31, 2006 and 2005, respectively, due to this vendor.

Income Taxes

The Company recognizes deferred income taxes using the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred income taxes are recognized for differences between the financial reporting and tax bases of assets and liabilities at enacted statutory tax rates in effect for the years in which the differences are expected to reverse. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. In addition, valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized.

BROADVIEW NETWORKS HOLDINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

December 31, 2006

(in thousands, except share information)

2. Significant Accounting Policies (continued)

Stock-Based Compensation

Effective January 1, 2006, the Company began recording compensation expense associated with stock options and other forms of equity compensation in accordance with SFAS No. 123R, *Share-Based Payment* ("SFAS 123R"), using the modified-prospective-transition method (as permitted under SFAS No. 148, *Accounting for Stock-Based Compensation — Transition and Disclosure*) to all new awards granted, modified or settled after January 1, 2003. SFAS 123R eliminates the ability to account for stock-based compensation transactions using the intrinsic value method under Accounting Principles Board Opinion No. 25 ("APB 25"), *Accounting for Stock Issued to Employees*, and instead generally requires that such transactions be accounted for using a fair value based method.

As permitted under SFAS 123R, the Company uses the Black-Scholes-Merton ("BSM") option-pricing model to determine the fair value of stock-based awards. The BSM model is consistent with the option-pricing model the Company used to value stock-based awards granted prior to January 1, 2006.

Software Development Costs

The Company capitalizes the cost of internal use software in accordance with Statement of Position 98-1, *Accounting for the Cost of Computer Software Developed or Obtained for Internal Use* ("SOP 98-1"). SOP 98-1 provides guidance for the accounting for computer software developed or acquired for internal use, including the requirement to capitalize certain costs and amortization of these costs. Costs for preliminary stage projects are expensed as incurred while application stage projects are capitalized.

The latter costs are typically internal payroll costs of employees associated with the development of internal use computer software. The Company commences amortization of the software on a straight-line basis over the estimated useful life, typically two years, when it is ready for intended use.

During the years ended December 31, 2006 and 2005, the Company capitalized approximately \$2,184 and \$1,759 of software development costs, respectively, which are included in property and equipment. Amortization expense related to these assets was approximately \$2,768 and \$3,712 for the years ended December 31, 2006 and 2005, respectively. No software development costs were capitalized for the ten months ended December 31, 2004 and the two months ended February 29, 2004.

Advertising

The Company expenses advertising costs in the period incurred and these amounts are included in selling, general and administrative expenses. Advertising expenses approximated \$536 and \$584 for the years ended December 31, 2006 and 2005, \$54 for the ten months ended December 31, 2004 and \$3 for the two months ended February 29, 2004, respectively.

Disputes

The Company accounts for disputed billings from carriers based on the estimated settlement amount of disputed balances. The estimate is based on a number of factors including historical results of prior dispute settlements with the carriers and is periodically reviewed by management to reassess the likelihood of success. Actual settlements may differ from estimated amounts (see Note 15).

Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets

BROADVIEW NETWORKS HOLDINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

December 31, 2006

(in thousands, except share information)

2. Significant Accounting Policies (continued)

and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amount of revenues and expenses during the reporting period. Management periodically reviews such estimates and assumptions as circumstances dictate. Actual results could differ from those estimates.

Comprehensive Income

Comprehensive income represents the change in net assets of a business enterprise during a period from non-owner sources. For the years ended December 31, 2006 and 2005, the ten months ended December 31, 2004 and the two months ended February 29, 2004, the Company's net loss was the only item of other comprehensive income.

Accounting for Derivatives and Hedging Activities

The Company had interest rate swap derivatives for a period in 2005 and 2006. These derivatives were not designated as a hedge for accounting purposes. As a result, the change in the fair value of the derivatives totaling \$762 for the year ended December 31, 2005 was recorded in expense. There was no liability on the consolidated balance sheet at December 31, 2005 and the derivatives expired during the year ended December 31, 2006 with no effect on the consolidated statement of operations. The Company has no outstanding derivative transactions at December 31, 2006.

3. Recent Accounting Pronouncements

Uncertainty in Income Taxes

In July 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"). FIN 48 requires the use of a two-step approach for recognizing and measuring tax benefits taken or expected to be taken in a tax return and disclosures regarding uncertainties in income tax positions. The Company is required to adopt FIN 48 effective January 1, 2007. The cumulative effect of initially adopting FIN 48 will be recorded as an adjustment to opening retained earnings in the year of adoption and will be presented separately. Only tax positions that meet the more likely than not recognition threshold at the effective date may be recognized upon adoption of FIN 48. The Company is currently evaluating the impact of FIN 48 and does not expect the adoption as of January 1, 2007 to have a material impact on its consolidated financial position or results of operations.

Fair Value Measurements

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurement* ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value in accounting principles generally accepted in the United States and establishes a hierarchy that categorizes and prioritizes the sources to be used to estimate fair value and expands disclosure about fair value measurements. The Company is required to adopt SFAS 157 effective January 1, 2008 on a prospective basis. The Company is currently evaluating the impact this new standard will have on its consolidated financial position and results of operations.

4. Acquisitions and Merger Agreements

2006 Acquisition

On June 26, 2006, the Company entered into a stock purchase agreement with ATX and its shareholders in a transaction that closed on September 29, 2006 (the "2006 Merger"). Accordingly, the results of ATX are included in these consolidated financial statements beginning September 30, 2006. ATX is a facilities-based competitive communications provider operating in the mid-Atlantic Region states including Pennsylvania, New Jersey, Delaware, Maryland and the District of Columbia.

BROADVIEW NETWORKS HOLDINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

December 31, 2006

(in thousands, except share information)

4. Acquisitions and Merger Agreements (continued)

The Company purchased all of the outstanding capital stock of ATX for net aggregate cash consideration of approximately \$88,787. The total purchase consideration has been allocated to the assets acquired and liabilities assumed based on their respective fair value as of September 30, 2006. The liabilities included in the acquisition cost allocation for exit activities included severance costs for terminated ATX executives and employees affected by the merger. These liabilities were accounted for in accordance with Emerging Issues Task Force ("EITF") 95-3, *Recognition of Liabilities in Connection with a Purchase Business Combination* ("EITF 95-3"). The balance of such liabilities was approximately \$1,810 as of December 31, 2006 and is expected to be paid in 2007.

The purchase price of the transaction as determined based on fair value was allocated as follows:

Assets acquired:

Cash and cash equivalents	\$ 10,646
Restricted cash	1,508
Accounts receivable	19,441
Other current assets	3,817
Property and equipment	17,607
Goodwill	38,033
Customer-based intangibles	21,412
Other intangibles	7,909
Other non-current assets	1,811

Total assets acquired 122,184

Liabilities assumed:

Current liabilities	20,732
Other liabilities	511

Total liabilities assumed 21,243

Net assets acquired \$100,941

The following unaudited pro forma financial information was prepared in accordance with SFAS 141 and assumes the acquisition had occurred at the beginning of the periods presented. The unaudited pro forma information is provided for informational purposes only. These pro forma results are based upon the respective historical financial statements of the respective companies, and do not incorporate, nor do they assume, any benefits from cost savings or synergies of operations of the combined company. The pro forma results of operations do not necessarily reflect the results that would have occurred had the acquisition occurred at the beginning of the periods presented or the results that may occur in the future.

The pro forma combined results are as follows:

	Year Ended December 31, 2006	Year Ended December 31, 2005
Revenues	\$391,640	\$402,403
Net loss	(48,347)	(44,446)

Included in the consolidated statements of operations for the year ended December 31, 2006 are merger integration costs of approximately \$862 of severance costs and consulting fees for Broadview employees.

BROADVIEW NETWORKS HOLDINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

December 31, 2006

(in thousands, except share information)

4. Acquisitions and Merger Agreements (continued)

2005 Merger

In October 2004, BH entered into a merger agreement with BNI that became effective January 14, 2005 (the "2005 Merger") and, accordingly, the results of BNI are included in these consolidated financial statements beginning January 14, 2005. The 2005 merger was effectuated by way of a stock for stock exchange whereby holders of the capital stock of BH and BNI each exchanged their capital stock for certain newly issued common and preferred shares of the Company. BH was considered the acquirer for accounting purposes. The total purchase consideration has been allocated to the assets acquired and liabilities assumed based on their respective fair value as of January 1, 2005. There is no resulting goodwill that is expected to be deductible for tax purposes. The liabilities included in the acquisition cost allocation for exit activities included severance costs for terminated BNI executives and employees affected by the merger and certain lease termination costs related to leases terminated due to the merger. These liabilities were accounted for in accordance with EITF 95-3. The balance of such liabilities was \$802 and \$1,795 as of December 31, 2006 and 2005, respectively, and primarily consists of lease termination costs to be paid through 2010.

The purchase price of the transaction as determined based on fair value was allocated as follows:

Assets acquired:

Cash and cash equivalents	\$ 7,991
Accounts receivable	14,915
Other current assets	3,335
Property and equipment	29,225
Customer-based intangibles	84,000
Goodwill	19,842
Other	985
Total assets acquired	<u>160,293</u>

Liabilities assumed:

Current liabilities	56,893
Long-term debt	87,870
Other long term liabilities	3,745
Total liabilities assumed	<u>148,508</u>
Net assets acquired	<u>\$ 11,785</u>

The following unaudited pro forma financial information was prepared in accordance with SFAS 141 and assumes the acquisition had occurred at the beginning of the periods presented. The unaudited pro forma information is provided for informational purposes only. These pro forma results are based upon the respective historical financial statements of the respective companies, and do not incorporate, nor do they assume, any benefits from cost savings or synergies of operations of the combined company. The pro forma results of operations do not necessarily reflect the results that would have occurred had the acquisition occurred at the beginning of the periods presented or the results that may occur in the future.

BROADVIEW NETWORKS HOLDINGS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (continued)
December 31, 2006
(in thousands, except share information)

4. Acquisitions and Merger Agreements (continued)

The pro forma combined results are as follows:

	Year Ended December 31, 2005	Ten Months Ended December 31, 2004	Two Months Ended February 29, 2004
Revenues.....	\$245,771	\$202,967	\$40,425
Net loss.....	(45,588)	(42,717)	(3,401)

Included in the consolidated statements of operations for the year ended December 31, 2005 are merger integration costs of approximately \$2,601 of network shutdown costs incurred to shut down components of the Bridgecom network and to migrate customers to BNI's network and approximately \$1,265 of severance costs and consulting fees related to Bridgecom employees.

2004 Merger

In November 2003, BH entered into a merger agreement with MCG, Telecomm North Corp. (a wholly-owned subsidiary of MCG) and certain stockholders of BH in a transaction that closed in March 2004 (the "2004 Merger"). Under the terms of the agreement, Telecomm North Corp. acquired 100% of BH's shares. The total purchase consideration has been allocated to the assets acquired and liabilities assumed based on their respective fair values as of February 29, 2004. Such allocation resulted in intangible assets of \$39,697, including goodwill of \$8,379. The current assets as of February 29, 2004 approximated \$21,567, the current liabilities \$13,518 and the fixed assets \$6,280.

Historically, MCG was the Predecessor Company's primary lender and continued to be so after the merger. MCG charged the Company advisory fees and certain closing costs in conjunction with this transaction and certain management fees subsequent to it. Amounts expensed related to these and other ongoing services and transactions with MCG amounted to approximately \$325 for the ten months ended December 31, 2004 and \$10 for the two months ended February 29, 2004, respectively, and are included in merger integration costs in the consolidated statements of operations. Also included in merger integration costs for the ten months ended December 31, 2004 are \$2,509 of employee related bonus payments incurred in connection with the merger paid to certain key employees of the Company.

5. Other Assets

Other current assets consist of the following at December 31:

	2006	2005
Deferred carrier charges	\$3,021	\$1,355
Prepaid expenses.....	2,729	1,068
Other	2,558	739
Total other current assets.....	<u>\$8,308</u>	<u>\$3,162</u>

BROADVIEW NETWORKS HOLDINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

December 31, 2006

(in thousands, except share information)

5. Other Assets (continued)

Other non-current assets consist of the following at December 31:

	2006	2005
Deferred financing costs	\$ 9,648	\$2,119
Lease security and carrier deposits	2,017	2,075
Other	1,752	12
Total other non-current assets	<u>\$13,417</u>	<u>\$4,206</u>

Amortization of deferred financing costs amounted to approximately \$1,173 and \$1,030 for the years ended December 31, 2006 and 2005, \$809 for the ten months ended December 31, 2004 and \$162 for the two months ended February 29, 2004, respectively.

6. Property and Equipment

Property and equipment, at cost, consists of the following at December 31:

	2006	2005
Network equipment	\$ 65,018	\$ 33,116
Computer and office equipment	16,794	14,297
Capitalized software costs	8,639	6,456
Furniture and fixtures and other	8,084	5,589
Leasehold improvements	4,661	2,577
	103,196	62,035
Less accumulated depreciation and amortization	<u>(41,801)</u>	<u>(22,488)</u>
	<u>\$ 61,395</u>	<u>\$ 39,547</u>

Property and equipment includes amounts acquired under capital leases of approximately \$9,655 and \$2,684, respectively, net of accumulated depreciation and amortization of approximately \$1,429 and \$1,808, respectively, at December 31, 2006 and 2005.

7. Identifiable Intangible Assets and Goodwill

The Company accounts for intangible assets under SFAS 142. The Company's intangible assets, consisting primarily of its customer base and trademark, were valued as follows:

Customer Relationships: The Company's customer base is composed of subscribers to the Company's various telecommunications services. The multi-period excess earnings method, a variant of the income approach, was utilized to value the customer base intangibles.

The customer relationship intangible is amortized over the average expected life of the customer relationship of four years based on the Company's historical disconnect statistics. The unamortized balances are evaluated for potential impairment based on future estimated cash flows when an impairment indicator is present.

Trademark: The Company's trademark was valued using a variant of the income approach, referred to as the relief from royalty method.

The Company has assumed the trademark intangible will generate cash flows for the Company for an indefinite period of time. Accordingly, no amortization expense has been recorded for this intangible. This

BROADVIEW NETWORKS HOLDINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

December 31, 2006

(in thousands, except share information)

7. Identifiable Intangible Assets and Goodwill (continued)

intangible will be evaluated periodically to determine whether events and circumstances continue to support an indefinite useful life and will be tested at least annually for impairment

Amortization of intangible assets for the years ended December 31, 2006 and 2005, the ten months ended December 31, 2004 and the two months ended February 29, 2004 amounted to \$30,479, \$28,077, \$6,595 and \$0, respectively.

Future projected amortization expense is as follows:

Year ending December 31:

2007	\$34,949
2008	27,657
2009	6,227
2010	4,015
	<u>\$72,848</u>

The components of intangible assets at December 31 are as follows:

	<u>2006</u>	<u>2005</u>
Customer base	\$137,067	\$115,658
Trademarks	7,000	—
Other	909	—
Less accumulated amortization	<u>(65,128)</u>	<u>(34,672)</u>
Net intangible assets	<u>\$ 79,848</u>	<u>\$ 80,986</u>

Changes in the carrying amount of goodwill are as follows:

Balance at December 31, 2004	\$ 8,379
Effects of 2005 merger	<u>19,585</u>
Balance at December 31, 2005	27,964
Effects of 2006 acquisition	<u>41,668</u>
Balance at December 31, 2006	<u>\$69,632</u>

8. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consist of the following at December 31:

	<u>2006</u>	<u>2005</u>
Recurring network costs and other operating accruals	\$14,211	\$ 4,630
Unbilled carrier and disputed charges	15,186	8,659
Accrued interest	8,615	26
Merger transaction fees	2,999	2,761
Payroll related liabilities	6,320	3,813
Other	<u>175</u>	<u>126</u>
Total accrued expenses and other current liabilities	<u>\$47,506</u>	<u>\$20,015</u>

BROADVIEW NETWORKS HOLDINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

December 31, 2006

(in thousands, except share information)

8. Accrued Expenses and Other Current Liabilities (continued)

Recurring network costs and other operating accruals are primarily costs of revenue amounts that have been incurred in a current service period but for which the Company has not yet been billed. Unbilled carrier and disputed charges are amounts that the Company has accrued for either estimated settlements of disputed charges or anticipated charges that have not been billed for various reasons.

Accrued interest for the year ended December 31, 2006 represents amounts due on the Company's Senior Secured \$210,000 Notes (see Note 10). Payroll related liabilities include amounts accrued in the normal course of business at month-end for payroll incurred but not yet paid plus any payroll actions accrued at management's discretion.

9. Obligations Under Capital and Operating Leases

Capital Leases

In March 2006, the Company entered into a capital lease facility, as amended in October 2006, with a third party that allows the Company to finance the acquisition of up to \$12,500, or as otherwise limited by our indenture (see Note 10), of network related equipment through December 31, 2007. The Company is obligated to repay the borrowings in thirteen quarterly installments. At the end of the final installment period, the Company has the option of renewing, returning or purchasing the equipment at a mutually agreed fair value which is not to exceed 18% of original equipment cost. The company had borrowings of \$6,226 outstanding on this facility at December 31, 2006.

The future minimum lease payments under all capital leases at December 31, 2006 are as follows:

Year ending December 31:

2007	\$ 4,099
2008	2,795
2009	2,542
2010	<u>841</u>
	10,277
Less amounts representing interest	<u>(2,508)</u>
	7,769
Less current portion	<u>(3,084)</u>
Capital lease obligations, net of current portion	<u>\$ 4,685</u>

Amortization of capital leases is included in depreciation and amortization expense in the consolidated statements of operations.

BROADVIEW NETWORKS HOLDINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

December 31, 2006

(in thousands, except share information)

9. Obligations Under Capital and Operating Leases (continued)

Operating Leases

The Company rents office space and equipment under various operating leases. The future minimum lease payments under operating leases at December 31, 2006 are as follows:

Year ending December 31:

2007.....	\$10,096
2008.....	8,781
2009.....	8,320
2010.....	7,851
2011.....	4,355
Thereafter	<u>8,158</u>
Total minimum lease payments	<u>\$47,561</u>

Future minimum lease payments are net of sublease rentals as follows:

Year ending December 31:

2007.....	\$ 671
2008.....	679
2009.....	688
2010.....	602
2011.....	<u>27</u>
Total sublease rentals	<u>\$2,667</u>

Total rent expenses under these operating leases, including escalation charges for real estate taxes and other expenses, amounted to approximately \$7,703 and \$7,094 for the years ended December 31, 2006 and 2005, \$1,588 for the ten months ended December 31, 2004 and \$366 for the two months ended February 29, 2004, net of approximately \$284, \$438, \$4 and \$8 of sublease rental income, respectively. Rent expense is charged to operations ratably over the terms of the leases, which results in deferred rent payable.

10. Debt

Senior Secured \$210,000 Notes

On August 23, 2006, the Company issued \$210,000 principal amount of 11 $\frac{3}{4}$ % Senior Secured Notes due 2012 (the "Senior Secured Notes"). The net proceeds from the Senior Secured Notes were used to fund the ATX acquisition, repay indebtedness under the Company's senior secured credit facility and senior unsecured subordinated notes due 2009, and for general corporate purposes. The Company is required to pay cash interest on the principal amount of the notes at a rate of 11 $\frac{3}{4}$ % per annum, which is due semi-annually on March 1 and September 1 of each year, commencing on March 1, 2007. The Senior Secured Notes mature on September 1, 2012. The notes are fully, unconditionally and irrevocably guaranteed on a senior secured basis, jointly and severally, by each of the Company's existing and future domestic restricted subsidiaries. The notes and the guarantees rank senior in right of payment to all existing and future subordinated indebtedness of the Company and its subsidiary guarantors, as applicable, and equal in right of payment with all existing and future senior indebtedness of the Company and of such subsidiaries.

BROADVIEW NETWORKS HOLDINGS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (continued)
December 31, 2006
(in thousands, except share information)

10. Debt (continued)

The notes and the guarantees are secured by a lien on substantially all of the Company's assets provided, however, that pursuant to the terms of an intercreditor agreement, the security interest in those assets consisting of receivables, inventory, deposit accounts, securities accounts and certain other assets that secure the notes and the guarantees are contractually subordinated to a lien thereon that secures the Company's five-year senior revolving credit facility with an aggregate principal amount of \$25,000 (the "Revolving Credit Facility") and certain other permitted indebtedness.

On or after September 1, 2009, the Company may redeem some or all of the notes at the following redemption prices, expressed as percentages of the aggregate principal amount thereof, plus accrued and unpaid interest to the date of redemption. Prior to September 1, 2009, (i) the Company may redeem up to 35% of the aggregate principal amount of the notes with the net proceeds of certain equity offerings at 111.375% of the aggregate principal amount thereof, plus accrued and unpaid interest to the date of redemption provided that, following the redemption, at least 65% of the aggregate principal amount of the notes originally issued under the indenture remains outstanding and (ii) the Company may redeem the notes, in whole or in part, at a make-whole redemption price set forth herein, plus accrued and unpaid interest to the date of redemption. In addition, the Company may, at its option upon a change of control, redeem all, but not less than all, of the notes at any time prior to September 1, 2009, at 111.375% of their principal amount, plus accrued and unpaid interest to the redemption date.

If the Company experiences a change of control, the holders of the notes will have the right to require the Company to purchase their notes at 101% of the aggregate principal amount thereof, plus accrued and unpaid interest to the date of repurchase.

The Indenture contains covenants limiting the Company's ability to, among other things: incur or guarantee additional indebtedness or issue certain preferred stock; pay dividends; redeem or purchase equity interests; redeem or purchase subordinated debt; make certain acquisitions or investments; create liens; enter into transactions with affiliates; merge or consolidate; make certain restricted payments; and transfer or sell assets, including equity interests of existing and future restricted subsidiaries. The Company was in compliance with all covenants at December 31, 2006.

Revolving \$25,000 Senior Credit Facility

On August 23, 2006, the Company entered into a five year, Revolving \$25,000 Senior Credit Facility ("Revolving Credit Facility"). Any outstanding amounts under this facility are subject to a borrowing base limitation based on an advance rate of 85% of the amount of eligible receivables, as defined. The loans bear interest on a base rate method or LIBOR method, in each case plus an applicable margin percentage, at the option of the Company. Interest on the LIBOR loans is paid on a monthly or quarterly basis, and interest on the base rate loans is paid on a quarterly basis. The Company did not have any borrowings outstanding on the Revolving Credit Facility at December 31, 2006.

The Revolving Credit Facility also has a sublimit of \$9,000 for the issuance of letters of credit. On the consummation of the ATX acquisition in August 2006, \$7,802 of letters of credit were issued in lieu of vendor security deposits. Such amount was outstanding at December 31, 2006.

Indebtedness under the Revolving Credit Facility is guaranteed by all of the Company's direct and indirect subsidiaries that are not borrowers thereunder and is secured by a security interest in all of the Company's and its subsidiaries' tangible and intangible assets.

The Revolving Credit Facility contains negative covenants and restrictions on the Company's assets and the Company's subsidiaries' actions, including, without limitation, incurrence of additional indebtedness, restrictions on dividends and other restricted payments, prepayments of debt, liens, sale-leaseback transactions, loans and

BROADVIEW NETWORKS HOLDINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

December 31, 2006

(in thousands, except share information)

10. Debt (continued)

investments, hedging arrangements, mergers, transactions with affiliates, changes in business and restrictions on the Company's ability to amend the indenture and terms of the Company's subordinated debt.

The fair value of the Senior Secured Notes and the Revolving Credit Facility approximates their carrying value. Certain of the Company's assets have been pledged to the above creditors pursuant to the debt agreements. Each of the Company's subsidiaries has guaranteed the outstanding debt. The parent company of these subsidiaries has no independent assets or operations and the guarantees are full and unconditional and joint and several.

Senior Credit Facility

Upon the closing of the 2005 Merger effective January 14, 2005, the Company amended and restated its Loan and Security Agreement, dated as of October 10, 2000, among the Company, its subsidiaries, NTFC Capital Corporation as Administrative Agent, Wachovia Bank, National Association as Syndication Agent and Communication Ventures Corporation (the "Senior Credit Facility").

The Company was required to pay interest in arrears, with varying interest rates on amounts of indebtedness, on each applicable interest payment date. The Senior Credit Facility contained financial and non-financial covenants.

On August 23, 2006, upon the completion of the Company's offering of the Senior Secured Notes, the Company repaid in full the then outstanding balance of \$79,000 on the Senior Credit Facility.

Senior Subordinated Debt

In connection with the 2005 Merger, the Company entered into a note purchase agreement with MCG and the other existing equity holders whereby the Company issued senior unsecured subordinated notes ("Subordinated Debt") due 2009. In June 2005, the Company issued additional subordinated notes to those equity holders on terms identical to the existing senior subordinated debt. In general, the terms of the senior subordinated debt include an interest rate of 12% until December 31, 2008 at which point it increases to 15% until the stated maturity date of December 31, 2009.

In July 2006, the Company amended the note purchase agreement and issued an additional aggregate principal amount of \$10,000 of senior unsecured subordinated notes due 2009 to three existing equity holders. These notes were issued on substantially the same terms as the senior unsecured subordinated notes due December 31, 2009.

In August 2006, in connection with the issuance of the Senior Secured Notes, the Company extinguished all outstanding Subordinated Debt, plus accrued interest. The Company converted \$73,764 into common stock and series A-1 and B-1 preferred stock, and repaid the remaining balance of \$972. The Company paid a conversion fee to all debt holders who converted to equity. This fee amounted to \$1,531 and was recorded in interest expense.

Interest expense on all borrowings amounted to approximately \$19,625 and \$15,461 for the years ended December 31, 2006 and 2005, \$2,385 for the ten months ended December 31, 2004 and \$433 for the two months ended February 29, 2004, respectively.

11. Shareholders' Equity (Deficiency)

Equity

In July 2006, in anticipation of the acquisition of ATX and the refinancing of the existing senior unsecured subordinated notes, the Company authorized two new series of preferred stock, Series A-1 Preferred Stock, and Series B-1 Preferred Stock. At the refinancing, holders of the senior unsecured subordinated notes were offered the

BROADVIEW NETWORKS HOLDINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

December 31, 2006

(in thousands, except share information)

11. Shareholders' Equity (Deficiency) (continued)

option to convert their existing notes into shares of either Series A-1 Preferred Stock and Class A Common Stock or Series B-1 Preferred Stock and Class A Common Stock at a conversion price per preferred share of \$516.35. Each converting note holder would also receive a number of shares of Class A Common Stock equal to twenty-five times the number of shares of preferred stock purchased. The two new series of preferred stock are pari passu with the existing Series A and Series B of preferred stock.

As of December 31, 2006, there were 100,702 shares of Series A-1 Preferred Stock outstanding. Each Share of Series A-1 Preferred Stock carries a liquidation preference identical to the Series A Preferred Stock of \$1,000.00 per share that increases at an annual rate of 12%, compounded quarterly. In order to realize a liquidation preference, the holder must simultaneously surrender 25 shares of common stock for each share of preferred stock liquidated. Each share of Series A-1 Preferred Stock is convertible at the option of the holder into that number of common shares equal to the liquidation preference at the date of conversion divided by fifty dollars.

As of December 31, 2006, there were 42,231 shares of Series B-1 Preferred Stock outstanding. Each Share of Series B-1 Preferred Stock carries a liquidation preference identical to the Series B Preferred Stock of \$1,000.00 per share that increases at an annual rate of 12%, compounded quarterly. In order to realize a liquidation preference, the holder must simultaneously surrender 25 shares of common stock for each share of preferred stock liquidated. Each share of Series B-1 Preferred Stock is convertible at the option of the holder into that number of common shares equal to the liquidation preference at the date of conversion divided by fifty dollars.

As of December 31, 2006, there were 89,521 shares of Series A Preferred Stock outstanding. Each share of Series A Preferred Stock carries an initial liquidation preference of \$1,000 per share that increases at an annual rate of 12%, compounded quarterly. To realize a liquidation preference, the holder must simultaneously surrender 25 shares of common stock for each share of preferred stock liquidated. Each share of Series A Preferred Stock is convertible at the option of the holder into that number of common shares equal to the liquidation preference at the date of conversion divided by fifty dollars.

As of December 31, 2006, there were 92,832 shares of Series B Preferred Stock outstanding. Each share of Series B Preferred Stock carries an initial liquidation preference of \$1,000 per share that increases at an annual rate of 12%, compounded quarterly. To realize a liquidation preference, the holder must simultaneously surrender 25 shares of common stock for each share of preferred stock liquidated. Each share of Series B Preferred Stock is convertible at the option of the holder into that number of common shares equal to the liquidation preference at the date of conversion divided by fifty dollars.

As of December 31, 2006, there were 8,871,427 shares of common stock outstanding. During 2006, 1,307,770 shares of common stock held by the Company's previous senior lenders were repurchased for nominal consideration, which approximated fair value, after the repayment of the Company's senior credit facility.

As a result of the 2005 Merger effective January 14, 2005 and related transactions, MCG, the indirect controlling stockholder of BH, effectively became the owner of stock representing (1) 60% of the voting power of the Company's capital stock and (2) approximately 40% of the Company's capital stock on a fully diluted basis, excluding options reserved but not issued under the Company's employee stock incentive plan as of January 14, 2005. Pursuant to the 2005 Merger, MCG exchanged its 100% interest in BH's corporate parent for Series A preferred stock and Class A common stock of the Company.

Immediately prior to the 2005 Merger, all existing series of capital stock of BNI were reclassified into Series B Preferred Stock and Class A common stock.

During 2005, the Company repurchased 61 shares of Series B preferred stock and 1,522 shares of Class A common stock from certain shareholders for a nominal amount.

BROADVIEW NETWORKS HOLDINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

December 31, 2006

(in thousands, except share information)

11. Shareholders' Equity (Deficiency) (continued)

Effective with the 2004 Merger, 336 shares of Telecomm North Corp. common stock were converted into 336 shares of BH common stock with a par value of \$0.01. Additionally, 36,000 shares of Telecomm North Corp. preferred stock were converted into 36,000 shares of BH preferred stock with a par value of \$0.01.

Stock options to acquire 206 shares of Series B Preferred Stock and 5,232 shares of Common Stock are outstanding under the Company's 1997 and 2000 Stock Option Plans.

A warrant to acquire 46 shares of Series B Preferred Stock and 1,151 shares of Common Stock is outstanding as of December 31, 2006.

12. Stock Based Compensation

Restricted Stock Awards

In conjunction with the 2005 Merger, the Company issued restricted stock awards that vest over three years at a percentage rate of 40/30/30. The awards consist of 1,900 shares of Series A preferred stock and 47,500 shares of Class A common stock. In 2006, an additional grant with the same vesting terms was provided to one of the Company's executives of 368 shares of Series A preferred stock, 383 shares of Series B preferred stock and 18,750 shares of Class A common stock. Under FASB Interpretation No. 44, *Accounting for Certain Transactions Involving Stock Compensation*, if a company cancels or settles a fixed stock option and replaces that award with stock, a new measurement date would be required and additional compensation expense is recognized over the remaining vesting period. All of the awards were valued at fair market value using public company comparables, recent comparable transactions and discounted cash flow valuation methodologies. Total compensation expense associated with these awards for the years ended December 31, 2006 and December 31, 2005 was \$754 and \$673, respectively. At December 31, 2006, the total compensation cost related to nonvested awards not yet recognized is \$705, of which \$652 will be recognized in the year ended December 31, 2007 and \$53 will be recognized in the year ended December 31, 2008. If prior to the time the restricted stock has vested, a participant's employment or services, as applicable, terminates for any reason all vesting with respect to restricted stock shall cease and unvested shares of restricted stock shall be forfeited to the Company for no consideration as of the date of such termination provided, however, in the event such participant's employment is terminated by the employer without cause or by the participant for good reason, as defined, all shares of restricted stock not previously vested shall immediately vest.

Stock Options

On March 3, 2004, BH adopted a stock option plan that allows the Board of Directors to grant incentives to employees and directors in the form of incentive stock options and nonqualified stock options. As of December 31, 2004, BH had reserved 105,320 shares of common stock to be issued under the Plan.

BROADVIEW NETWORKS HOLDINGS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (continued)
December 31, 2006
(in thousands, except share information)

12. Stock Based Compensation (continued)

At December 31, 2004, options to purchase 29,352 shares of common stock at an exercise price of \$0.01 per share were outstanding and were exercisable through March 2014. A summary of the status of the Company's options and changes during the periods is presented below:

	Number of Shares	Weighted- Average Exercise Price
Outstanding at December 31, 2003	102,585	6.51
Granted	29,352	0.01
Settled	101,429	4.71
Canceled	<u>1,156</u>	6.51
Outstanding at December 31, 2004	29,352	
Cancelled January 2005	<u>29,352</u>	0.01
Outstanding at December 31, 2005	<u>—</u>	

In conjunction with the 2005 Merger, outstanding stock options under this plan were cancelled and replaced with restricted stock awards. The options granted during the ten months ended December 31, 2004 had exercise prices below the market value of the underlying common stock; therefore, compensation expense of \$308, reflecting the fair value of the stock options, is included in the consolidated statement of operations. For those options granted prior to March 3, 2004, had the Company elected to recognize compensation cost based on the fair value of the options granted at the grant date, as prescribed by SFAS 123, the Company would have recorded approximately \$5 of compensation expense for the two months ended February 29, 2004.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes-Merton option pricing model with the following weighted-average assumptions used for the ten months ended December 31, 2004, the two months ended February 29, 2004 and the year ended December 31, 2003, respectively: expected volatility of 0%, risk-free interest rates of 4.8% to 6.7%, expected option life of ten years, and no expected dividends.

13. Income Taxes

The components of the provision for income taxes from continuing operations for the year ended December 31, 2006 and 2005, the ten months ended December 31, 2004 and the two months ended February 29, 2004, consist of:

	Successor			Predecessor
	December 31, 2006	December 31, 2005	Ten Months Ended December 31, 2004	Two Months Ended February 29, 2004
Current:				
Federal	\$ —	\$—	\$ —	\$—
State	262	—	12	2
Deferred	<u>—</u>	<u>—</u>	<u>3,790</u>	<u>—</u>
	<u>\$262</u>	<u>\$—</u>	<u>\$3,802</u>	<u>\$ 2</u>

BROADVIEW NETWORKS HOLDINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

December 31, 2006

(in thousands, except share information)

13. Income Taxes (continued)

The following table shows the principal reasons for the difference between the effective income tax rate and the statutory federal income tax rate:

	<u>Successor</u>		<u>Ten Months Ended December 31, 2004</u>	<u>Predecessor Two Months Ended February 29, 2004</u>
	<u>December 31, 2006</u>	<u>December 31, 2005</u>		
Statutory federal income tax rate	34.0%	34.0%	34.0%	34.0%
State and local income tax, net of federal tax benefits	0.4	0.0	1.3	(0.2)
Permanent items	0.0	0.0	0.5	(0.3)
Valuation allowance	(34.4)	(34.0)	(10.7)	(33.8)
Other	<u>0.0</u>	<u>0.0</u>	<u>1.2</u>	<u>0.0</u>
Effective income tax rate	<u>0.0%</u>	<u>0.0%</u>	<u>26.3%</u>	<u>(0.3)%</u>

Deferred taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

The components of the net deferred tax assets (liabilities) consist of the following at December 31, 2006 and 2005:

	<u>December 31</u>	
	<u>2006</u>	<u>2005</u>
Accounts receivable	\$ 1,859	\$ 2,343
Net operating loss carryforwards	28,040	113,621
Deferred revenue	3,198	2,012
Customer lists	1,305	1,776
Deferred rent	1,095	—
Other	<u>983</u>	<u>1,908</u>
Total deferred tax assets	<u>36,480</u>	<u>121,660</u>
Customer lists	20,778	28,358
Trademark	46	—
Goodwill	1,117	—
Depreciation	<u>13,565</u>	<u>8,660</u>
Total deferred tax liabilities	<u>35,506</u>	<u>37,018</u>
Net deferred tax assets	974	84,642
Valuation allowance	<u>(974)</u>	<u>(84,642)</u>
	<u>\$ —</u>	<u>\$ —</u>

The Company completed a study in 2006 of its available net operating loss carryforwards ("NOLs") resulting from the 2005 Merger. The utilization of these NOL carryovers is subject to restrictions pursuant to Section 382 of the Internal Revenue Code. As such, it was determined that certain NOLs recorded by the Company as deferred tax

BROADVIEW NETWORKS HOLDINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

December 31, 2006

(in thousands, except share information)

13. Income Taxes (continued)

assets for the year ended December 31, 2005 were limited. At December 31, 2006, the Company had net operating loss carryforwards totaling approximately \$70,000 which expire through 2025.

The Company has provided a full valuation allowance against the net deferred tax asset as of December 31, 2006 and 2005 because management does not believe it is more likely than not that this asset will be realized. If the Company achieves profitability, the net deferred tax assets may be available to offset future income tax liabilities.

14. Employee Savings and Retirement Plan

The Company has a contributory defined contribution plan under Section 401(k) of the Internal Revenue Code (the "Code") covering all qualified employees. Participants may elect to defer up to 20% of their annual compensation, subject to an annual limitation as provided by the Code. The Company's matching contribution to this plan is discretionary. For the year ended December 31, 2006, the ten months ended December 31, 2004 and the two months ended February 29, 2004, the Company made contributions of approximately \$32, \$38 and \$7, respectively, to this plan. For the year ended December 31, 2005, the company did not make any contributions to this plan.

15. Commitments and Contingencies

The Company has employment agreements with certain key executives at December 31, 2006. These agreements provide for base salaries and performance bonuses over periods ranging from one to two years. These employment agreements also provide for severance compensation for a period of up to 12 months after termination.

The Company has, in the ordinary course of its business, disputed certain billings from carriers and has recorded the estimated settlement amount of the disputed balances. The settlement estimate is based on various factors, including historical results of prior dispute settlements. The amount of such charges in dispute at December 31, 2006 was in excess of \$43,000. The Company believes that the ultimate settlement of these disputes will be at amounts less than the amount disputed and has accrued the estimated settlement in accounts payable and accrued expenses and other current liabilities at December 31, 2006. It is possible that actual settlement of such disputes may differ from these estimates and the Company may settle at amounts greater than the estimates.

In February 2007, the Company finalized a settlement with its major telecommunications supplier and paid \$15,200 to extinguish approximately \$39,000 of outstanding disputes. In connection with the settlement, in 2006 the Company recorded a reduction in costs of revenues of approximately \$5,000.

The Company has entered into a commercial agreement with a vendor under which it purchases certain services that it had previously leased under the UNE-P provisions of the Telecommunications Act of 1996. The agreement requires certain minimum purchase obligations and contains fixed but escalating pricing over its term. The obligation as of December 31, 2006 under this agreement amounts to approximately \$84,000 over four years.

The Company is involved in claims and legal actions arising in the ordinary course of business. Management is of the opinion that the ultimate outcome of these matters will not have a material adverse impact on the Company's consolidated financial position, results of operations, or cash flows.

16. Related Party Transactions

In 2004, MCG provided certain management and administrative services to the Company at agreed-upon rates. Management fees of \$4,000 and \$1,000 are included in other expense in the consolidated statements of operations for the ten months ended December 31, 2004 and the two months ended February 29, 2004, respectively.

BROADVIEW NETWORKS HOLDINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

December 31, 2006

(in thousands, except share information)

17. Subsequent Event — Acquisition Agreement

In February 2007, the Company entered into an agreement to acquire InfoHighway Communications Inc. ("InfoHighway"). InfoHighway is a provider of hosted and managed communications solutions in the northeastern United States. The Company expects to finance the transaction through the issuance of additional Senior Secured Notes. The cash portion of the purchase price plus transaction expenses will be funded from the proceeds of a committed debt financing offered to the Company by a financial institution. The agreement is subject to Federal and State regulatory approvals and is expected to close in the second quarter of fiscal 2007.

SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS
BROADVIEW NETWORKS HOLDINGS, INC. AND SUBSIDIARIES
(dollars in thousands)

<u>Description</u>	<u>Balance at Beginning of Period</u>	<u>Charges to Expenses</u>	<u>Other Accounts Note^(a)</u>	<u>Deductions Note^(b)</u>	<u>Balance at End of Period</u>
Allowance for Uncollectible Accounts Receivable:					
Year Ended December 31, 2006.....	\$ 6,695	\$6,384	\$ 4,733	\$9,841	\$ 7,971
Year Ended December 31, 2005.....	908	3,823	8,874	6,910	6,695
Ten Months Ended December 31, 2004 ...	1,169	1,332	25	1,618	908
Two Months Ended February 29, 2004....	1,225	169	—	225	1,169
Valuation Allowance for Deferred Tax Assets:					
Year Ended December 31, 2006.....	\$(84,642)	\$ —	\$ 83,668 ^(d)		\$ (974)
Year Ended December 31, 2005.....	—	—	(84,642) ^(c)	—	(84,642)
Ten Months Ended December 31, 2004 ...	(3,161)	—	3,161	—	—
Two Months Ended February 29, 2004....	(2,664)	—	(491)	—	(3,161)

^(a) Allowance for Uncollectible Accounts Receivable includes amounts previously written off which were credited directly to this account when recovered.

^(b) Allowance for Uncollectible Accounts Receivable includes amounts written off as uncollectible.

^(c) Net effect of purchase accounting in relation to the 2005 merger and current year activity.

^(d) Net effect of the completion of the study of the available net operating loss carryforwards ("NOLs") resulting from the 2005 merger and current year activity.